

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND
STATE RETIREMENT AGENCY

120 EAST BALTIMORE STREET
BALTIMORE, MARYLAND 21202
TELEPHONE: 410-625-5555
1-800-492-5909

THOMAS K. LEE
EXECUTIVE DIRECTOR
SECRETARY TO THE BOARD



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July 2003

Dear Member:

You may be aware of the Federal indictments of a former money manager employed by the Retirement System and one of our former Board members. Obviously, this is of great concern to the Board and staff. While this matter is under active investigation, we are unable to comment on specific issues. However, we want to assure you that our most critical mission is to uphold our fiduciary responsibilities and maintain your full and complete confidence.

These are challenging times. Since assuming our roles as Chairman and Vice-Chairman, it has been our intent to promote open and clear communication with our membership. We are determined to move firmly to assure your full confidence that you will receive the benefits and service that you have earned and deserve. Your benefits are safe and secure. You will continue to receive your check.

To some, these indictments may be seen as a mark against the entire Board. This should not be so. The Board of Trustees is a diverse, dedicated highly experienced and educated group of men and women, accountable to a common standard of excellence. Their dedication to you and their devotion to uncompensated public service is a reflection of their commitment to the System's mission.

As your Chairman and Vice-Chairman, we have the combined experience of over 80 years in elected office, many in the top levels of state government. We are accountable to you. We will require all personnel, in whatever capacity they serve the Agency, to reflect only the highest levels of honesty, integrity and competence which we have aspired to in our own roles as public servants.

We would ask that you consider carefully what we are doing to restructure the System and reserve judgment as the Board and Agency's new management team implements its new policies. A number of changes in investment management, personnel and procedures are already underway.

On the advice of Ennis Knupp & Associates, our nationally respected investment consultant, we have begun a strategic program of asset allocation, including regular rebalancing of asset classes; based on prudent investment principles. We are instituting new internal standards and processes to ensure more effective oversight of managers. Investment managers who have failed to perform up to the standard set for them have been terminated in favor of those who offer better performance.

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Cortex, an international management consultant firm has been in the process of conducting a fiduciary audit of the System administration and Board procedures. The Cortex recommendations concerning the Board's governance procedures and standards will be presented to the Board later this month.

Internally, the Agency has a new Executive Director whose aggressive and knowledgeable management style as former Maryland Deputy Budget Secretary has earned him the highest level of respect. Interviews are now being conducted for a new Chief Investment Officer.

The Agency has also determined to participate more aggressively in securities class action lawsuits (Royal Ahold) and to pursue other legal remedies when investment losses have been incurred through deceit or fraud. Our action in pursuing claims against Alan Bond for his 'cherry picking' scheme resulted in a \$2.9 million restitution to the System's trust fund.

As your Chairs, we want to assure you, active members, retirees, and beneficiaries that your peace of mind is of paramount importance to the Trustees. This Agency, because of its mission, its interaction with the investment community and the substantial financial resources involved, has the potential and, indeed, the obligation to become a leader among pension systems and to be one of the most prestigious agencies in state government. It is our intent to achieve this level of professionalism. Nothing less will be tolerated.

Sincerely,



William Donald Schaefer



Nancy K. Kopp